GOVERNMENT DEPOSITION EXHIBIT 737

Agenda Item 14 MasterCard International Board of Directors March 21, 1996

Competitive Threats Posed by American Express H. Eugene Lockhart, President and Chief Executive Officer

TOPIC

Discuss the potential impact of recent developments in American Express activities worldwide.

BACKGROUND

Recent events initiated by AMEX have the potential to change the competitive landscape faced by MasterCard members.

These events include, but are not limited to, the following:

- AMEX aggressively soliciting MasterCard members in all regions, offering an alternative brand solution in members' card pontolios
- AMEX card strategies that encroach into traditional bankcard positioning:
 - Revolving Credit Cards (Optima True Grace)
 - T&E-oriented co-branded cards (Delta Sky Miles, Hilton)
- Growth into selected international markets by partnering with local banks (many of whom are MasterCard members) to issue AMEX cards in local currencies:
 - Reported to have 10 card-issuing agreements with banks and non-banks
- Reports that Visa's Board could pass a by-law prohibiting its members from issuing competitive brand card products
- · Rumors of merger discussions between a major financial conglomerate and AMEX

ANALYSIS

In 1995, AMEX earned \$1.5 billion on a revenue base of \$15.8 billion, an increase of 11% in net income from the previous year. Despite this strong record of performance from continuing operations, the company may be at a strategic cross-road in defining future growth strategies. *The Nilson Report* (January 1996 issue) forecasts that the company could go from a market share of 23% in 1986 to 2% by the year 2005 in the area of global brand, general purpose, credit and debit cards.

COV EXHIBIT

Highly Confidential Subject to Protective Order

P-0288

MC BOTTA

AMEX's recent activities suggest explicit strategies focused at addressing current weaknesses, namely:

- Aggressive expansion of acceptance
- Selected international market penetration
- Defensive protection of a weakening corporate/business segment
- Lifestyle trends away from its core prestige segment.

Board members are asked to consider the following issues in preparation for the discussion at the meeting:

- What is the magnitude of this competitive threat?
- Are pre-emptive actions appropriate, and if so, what types of action?
- Should management develop an explicit position on these types of market events?

NEXT STEPS

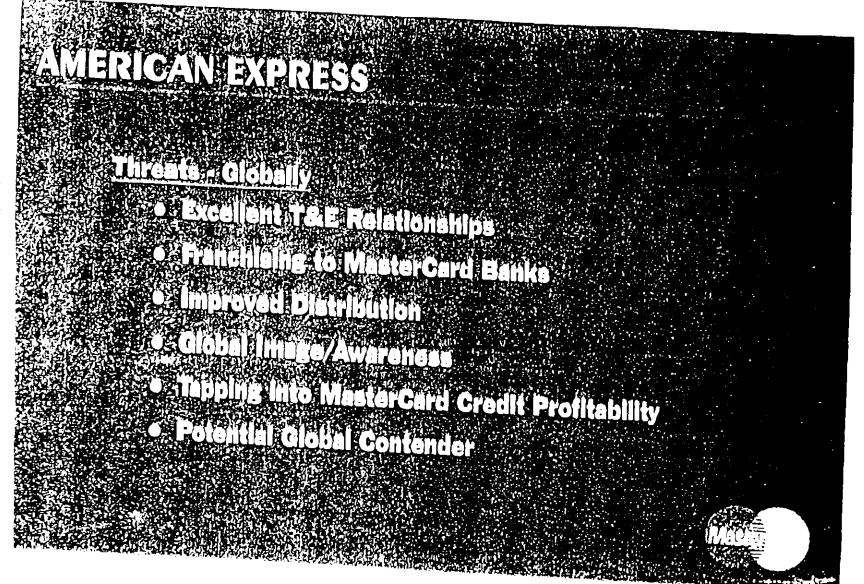
The Global Board members are asked to provide their views and comments on the above, including potential MasterCard responses, if any.

AMERICAN EXPRESS

U.S. Market

- Player in the U.S. T&E Category
- Profitability Driven by the Acceptance Relationships
- Upscale Corporate and Prestige Image
- Charge Card Business Slowing
- Shifting Profitability Streams from Charge Card to Credit Products - Optima (Co-Branding)
- Considering Multiple Distribution Channels





I RECOMPETITIVE STRATECY

Co-op Campaign

- AMEX Dominates T&E Acceptance in U.S.
 - T&E Players Prefer MasterCard Acceptance
 - Profitability.
 - o AMEX Directly Competing in Category
 - · Major TRE Players To

 - Shift Share Away from AMEX Compete Directly Versus Delta / Hilton :
 - Develop U.S. Competitive T&E Co-op Campaign



AMERICAN EXPRESS

Competitive T&E Posture

- Attack Optima Directly in the U.S. Co-op T&E Campaigns
- Aggressively Target, Heavy Spend Segment
- Educate MasterCard Membership of Amex Threats
 - Limit Distribution Opportunities
 - Prevent AMEX Resurgence Immediately
 - Benefit from AMEX Competitive T&E Posture
 - Enlist Members/Partners Support for Co-op Campaigns

